

**Member and Core Settlement Guarantee Fund Committee
("MCSGFC"/"Committee")
of
National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex, Bandra (East) Mumbai – 400 051
held on February 29, 2024**

In the matter of the Trading Member Angel One Limited

CORAM

Mr. S Ravindran	-	Chairman
Mr. S Sudarshan	-	Committee Member
Mr. Essaji Vahanvati	-	Committee Member
Mr. Ashishkumar Chauhan	-	Committee Member

ALSO PRESENT

Mr. Piyush Chourasia	-	Chief Regulatory Officer
Mr. Ankit Sharma	-	Chief Regulatory Officer
Ms. Renu Bhandari	-	Vice President – Inspection
Ms. Sonali Karnik	-	Vice President – Enforcement
Mr. Janardhan Gujran	-	Vice President – Enforcement

BACKGROUND

1. **Angel One Limited ("Angel One")** is a Trading Member registered with the National Stock Exchange of India Limited ("**Exchange**"/"**NSEIL**") and enabled for trading in the Capital Market ("**CM**") segment since October 1995, Futures & Options ("**F&O**") segment since June 2000, and Currency Derivatives ("**CD**") segment since August 2008.
2. The Exchange conducted a Limited Purpose Inspection ("**LPI-1**") of the books and records of Angel One covering the period from October 2021 to May 2022 ('Inspection Period') in May 2022. Post-inspection, the Exchange issued a letter of observation dated November 9, 2022 ("**LO-1**"), for the observed non-compliances. Angel One replied to the LO-1 on November 18, 2022.
3. The Exchange conducted another Limited Purpose Inspection ("**LPI-2**") of the books and records of Angel One covering the period from July 2021 to December 2021 in September 2022. Post-inspection, the Exchange issued a letter of observation dated February 22, 2023 ("**LO-2**"), for the observed non-compliances. Angel One replied to the LO-2 on March 9, 2023.

INSPECTION OBSERVATIONS/VIOLATIONS

4. The observations/violations alleged in the LO-1 and LO-2 are summarized hereunder:

LO-1:

- 4.1. Failure to obtain documentary evidence in support of financial information provided by client in derivative segment in case of 54 out of 60 clients selected for sample scrutiny (90% of the total sample clients).
- 4.2. Failure to adopt customer due diligence process.

LO-2:

- 4.3. Failure to obtain documentary evidence in support of financial information provided by client in derivative segment.
- 4.4. Failure to inspect APs (Authorised Person) as per prescribed parameters.

LO-1 and LO-2:

- 4.5. Non-adherence to prescribed guidelines pertaining to referral schemes.

REGULATORY PROVISIONS

5. At the outset, it is appropriate to refer to the relevant regulatory provisions alleged to have been violated by Angel One; extracts whereof are reproduced below:

5.1. Failure to obtain documentary evidence in support of financial information provided by client in derivative segment

- a. Exchange Circular No. NSE/INSP/14048 dated February 3, 2010

Point 6 of the Annexure-1

In respect of clients trading in derivative segment, the member shall collect documentary evidence for financial information.

Illustrative list of documents

- a. Copy of ITR Acknowledgement
- b. Copy of Annual Accounts
- c. Copy of Form 16 in case of salary income
- d. Net worth certificate
- e. Salary Slip
- f. Bank account statement for last 6 months
- g. Copy of demat account Holding statement
- h. Any other relevant documents substantiating ownership of assets
- i. Self-declaration along with relevant supporting

Further, for clients registered before the circular date (existing clients), trading member shall collect documents pertaining to financial information at the time of periodic (annual) updation of financial information.

5.2. Proper customer due diligence processes not adopted

- a. Exchange's circular no. NSE/INSP/4377 dated Sep 01, 2003

All payments shall be received / made by the brokers from / to the clients strictly by account payee crossed cheques / demand drafts or by way of direct credit into the bank account through EFT, or any other mode allowed by RBI.

- b. Exchange Circular No. NSE/INSP/18024 dated June 9, 2011

2. While receiving funds from the clients through pre-funded instruments, such as, Pay Order, Demand Draft, Banker's cheque, etc., it is observed that the stock brokers are unable to maintain an audit trail of the funds so received, as the details of the name of the client and bank account-number are not mentioned on such instruments. This may result in flow of third party funds / unidentified money, which is not in accordance with the provisions of the aforesaid circular and also affects the integrity of the securities market.

3. Therefore, with a view to address the aforesaid concerns, it has been decided in consultation with the major stock exchanges and associations of stock brokers, as under:

- a. *If the aggregate value of pre-funded instruments is ` 50,000/- or more, per day per client, the stock brokers may accept the*

instruments only if the same are accompanied by the name of the bank account holder and number of the bank account debited for the purpose, duly certified by the issuing bank. The mode of certification may include the following:

- i. Certificate from the issuing bank on its letterhead or on a plain paper with the seal of the issuing bank.*
 - ii. Certified copy of the requisition slip (portion which is retained by the bank) to issue the instrument.*
 - iii. Certified copy of the passbook/bank statement for the account debited to issue the instrument.*
 - iv. Authentication of the bank account-number debited and name of the account holder by the issuing bank on the reverse of the instrument.*
- b. Maintain an audit trail of the funds received through electronic fund transfers to ensure that the funds are received from their clients only.*

5.3. Failure to obtain documentary evidence in support of financial information provided by client in derivative segment

- a. Exchange Circular No. NSE/INSP/13606 dated December 3, 2009 (wherein SEBI Circular MIRSD/SE/Cir-19/2009 dated December 3, 2009 has been circulated)

Client Registration Procedure

- 1. The stockbroker shall register a client by entering into an agreement with him. For this purpose, the stockbroker shall make available a folder /book containing all the documents required for registration of a client. The folder/book shall have an index page listing all the documents contained in it and briefly indicating significance of each document. Once signed, a copy of the same shall be made available to the client.*
- 2. The folder/book shall have two parts: (a) Mandatory and (b) Non-mandatory.*

Mandatory Documents

- 3. The mandatory documents are:*

- a. *Member Client Agreement (MCA)/Tripartite Agreement in case sub-broker is associated,*
- b. *Know Your Client (KYC) Form*
- c. *Risk Disclosure Document (RDD)*

These shall be executed in the format as prescribed by SEBI.

- 6. *The stockbroker shall have documentary evidence of financial details provided by the clients who opt to deal in the derivative segment. In respect of other clients, the stockbroker shall obtain the documents in accordance with its risk management system*
- b. Exchange Circular No. NSE/INSP/48624 dated June 16, 2021 (Wherein SEBI Circular on Settlement of running account – dated June 16, 2021 has ben circulated)

5.6. Retention of any amount towards administrative / operational difficulties in settling the accounts of regular trading clients (active clients), shall be discontinued.

5.4. Failure to inspect APs as per prescribed parameters

- a. Exchange Circular No. NSE/INSP/42448 dated October 18, 2019
- iii. *The indicative scope of the Inspection to be carried out is outlined in Annexure A.*

Members are advised to put in place adequate mechanisms to review the inspection reports and take suitable actions to ensure non-recurrence of any irregularities observed. Members shall on an annual basis place an MIS before their Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) on the number of inspections undertaken, irregularities observed, and action taken.

Annexure-A

INDICATIVE SCOPE OF BRANCH /AP INSPECTION BY MEMBERS

Members while undertaking the inspection of Branches and AP offices shall examine that all applicable regulatory requirements have been complied with including following indicative parameters:

- 3. There is no movement of Funds and securities between the client and AP/branch official for settlement of trades on the Exchange. Demat statement and bank accounts of the AP to be examined to verify such instances.*
- 8. Notice board of the Trading Member containing all details/information prescribed from time to time, is displayed at the inspection location.*
- 9. SEBI registration certificate of the Trading Member and registration letter issued by the Exchange is displayed at the inspection location.*
- 11. The Authorised Person/Branch is not involved in any fund based activities / collecting deposits from investors / dabba trading / chit funds or any other such schemes.*
- 15. Advertisements soliciting business are not issued by the Authorised Person/Branch in newspapers / pamphlets / journals / magazines etc. without appropriate approvals.*
- 16. Complaints received at the AP/Branch location are handled and records are maintained as per the regulatory requirement.*
- 21. In case of change/shifting of location of AP/Branch, the following is ensured: -*
 - a) All clients mapped to the AP/Branch have been notified at least thirty days before the change.*
 - b) Notice Board and applicable SEBI registration certificates should immediately be put up at the new location.*
 - c) The new location shall be duly reported to the Exchange and the old location should be deactivated. New terminal details shall also be uploaded to the Exchange.*

5.5. Non-adherence to prescribed guidelines pertaining to referral schemes

a. Exchange Circular No. NSE/INSP/43824 dated March 11, 2020

- 1. For a particular referring person, the rate of the incentive should be flat (i.e. not slab based), and a single rate should be applied. It is hereby clarified that a trading member may have different referral incentive rates across different referring person.*
- 2. The referring person should not undertake any form of selling/advisory activities in secondary market w.r.t securities and should not manage the portfolio of any person who is being referred. He/she should strictly limit his/her role to "Referral" only.*
- 3. The referred client shall not be subjected to any kind of trade inducement by the referring person, and it shall be ensured that all instructions for placement of orders are obtained from the respective clients only.*

Members shall frame an internal policy w.r.t. quantum/maximum limit on the incentive to be provided to the referring person in line with the aforementioned guidelines. Such policy shall be duly approved by its Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) as the case may be. Members shall take adequate steps to review and monitor the adherence to the said policy on a regular basis, at such intervals not later than one year.

PRESENT MCSGFC PROCEEDINGS

- 6.** The Exchange, vide email dated February 22, 2024, provided Angel One an opportunity of a personal hearing before the Committee. Angel One sought an adjournment due to the non-availability of senior management. The Committee acceded to the adjournment request of Angel One.
- 7.** The Committee noted the non-compliances by Angel One and the applicable penalties. Angel One, vide an email dated March 19, 2024, withdrew its intention to seek a personal hearing.

CONSIDERATIONS/FINDINGS

8. The observations/violations, replies of Angel One and findings of the Committee are as under:

LO-1:

8.1 Failure to obtain documentary evidence in support of financial information provided by client in derivative segment

8.1.1 The Exchange verified the KYC (Know Your Customer) details of the 60 sample clients of Angel One. Upon Verification, the Exchange observed that, Angel One had not collected required documents from clients prior to trading in the derivatives segment, in 54 out of the 60 instances selected for sample scrutiny (90% of the total sample instances).

8.1.2 In reply to LO-1, Angel One submitted as under:

- a. As per regulatory requirements, financial details are sought from the clients regularly on an annual basis. Based on submission received, financial information is updated in Angel One's back-office database and Unique Client Code (UCC) records of the Exchange.
- b. Furthermore, Angel One submitted instance wise reply as under;
 - i. 8 clients provided financial details and the same were updated, supporting evidence are submitted to the Exchange.
 - ii. 26 clients have not opted to trade in derivatives segment and the supporting UCC snapshot for clients not opted derivatives segment is submitted to the Exchange.
 - iii. In case of 18 clients, corrective measures were taken by deactivating client accounts. Further, 8 clients have traded in derivative segment and the remaining 10 clients had not carried out any transactions.
 - iv. 2 client accounts were closed by the clients during the month of December 2021 and April 2022.

- c. Furthermore, for violations pertaining to improper maintenance of KYC, Angel One has now strengthened the process, wherein the financial details of the clients opting for the derivatives segment are scrutinized by KYC operations team in detail.

8.1.3 The Committee finds as under:

- a. Upon perusal of the submission made by Angel One, it is observed as under:

- i. In case of 8 clients

Upon verification of documents provided by Angel One, it is observed that Angel One had collected bank statement/ ITR acknowledgement/ salary slips as income proof at the time of opening of an account. Thus, the violation ceases to persist in the case of 8 clients.

- ii. In case of 26 clients

Upon verification of UCC data, it is observed that the 26 clients had never opted to trade in the derivative segment. Thus, the violation ceases to persist in the case of 26 clients.

- iii. For 18 clients

Upon perusal of trade and UCC data, it is observed that 17 clients were deactivated by Angel One post inspection, out of which 10 clients had never traded in their accounts. However, post inspection compliance does not absolve Angel One for the violations already committed. Further, in case of 1 client (UCC code: IIRA66249), it was observed that the account was still active as of February 14, 2024, and the client had traded during the Inspection Period. Thus, the violation persists in the case of 8 clients.

- iv. For 2 clients

Upon perusal of UCC data, it was observed that 2 client accounts were closed during the Inspection Period. Thus, the violation ceases to persist in the case of these 2 clients.

- b. In view of the above, the violation stands revised to 8 instances out of 60 instances.
- c. Exchange Circular No. NSE/INSP/13606 dated December 3, 2009, stipulates that the stockbrokers shall have documentary evidence of financial details provided by the clients who opt to deal in the derivative segment.

8.1.4 Given the findings mentioned above, the Committee decided to levy a monetary penalty of Rs. 80,000/- for the observed violation in terms of Sr. No.1 of Part B (Procedural Violation) of Annexure I of the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

8.2 Failure to adopt customer due diligence process

8.2.1 The Exchange verified the UCC data and client bank account details. Upon verification, the Exchange observed that 22 bank accounts were mapped to 70 clients.

8.2.2 In reply to LO-1, Angel One submitted as under:

- a. Angle One has a process of verifying bank account details by penny drop mechanism as per permitted regulatory guidelines. Under penny drop mechanism banks confirm the name of account holder which is then verified with the name of client as per income tax database. There was no suspicion observed, while carrying out said process for all the cases including 70 cases reported.
- b. Process of verification through penny drop mechanism supports only the name of the client, accordingly in all the aforesaid cases the name of the UCC holder was matched with the Bank Account holder name.
- c. In the instances where the UCC holder is a joint account holder in Bank, such penny drop would provide the name of the first holder which may be same as the other joint account holder. Hence, the penny drop mechanism could not throw such mismatches of multiple codes/ PAN mapped to single bank account.

- d. Furthermore, Angel One has strengthened the verification process for which system-based controls are implemented, wherein system scrubs the bank account details of the client with existing database of bank account details for our clients. In case match is found the journey of account opening is not carried further and it is directed to the scrutiny team for further verification. Scrutiny team further undertakes due diligence and conducts verification from the customer for getting the requisite bank account details and accordingly account is processed.
- e. Post the alleged violation as a precautionary measure, all 70 accounts were suspended for trading by Angel One.

8.2.3 The Committee finds as under:

- a. Angel One contended that Angle One uses penny drop mechanism to verify bank account details in line with regulatory guidelines. This process involves banks confirming the account holder's name, which is then verified against the client's name. No issues were observed during this process for all cases, including the 70 UCCs. However, it was observed that 22 bank accounts were mapped to 70 UCCs, indicating that Angel One failed to perform adequate due diligence in fulfilling KYC requirements at the time of client registration.
- b. Furthermore, it was observed that, 69 out of these 70 clients had executed trades, impacting the settlement of pay-in and pay-outs by Angle One, as a single bank account was mapped to multiple clients.
- c. Angel One contended that the 70 UCCs were deactivated post Exchange inspection. However, post-inspection compliance does not absolve Angel One of the violations already committed. Thus, the violation persists.
- d. As per Exchange Circular No. NSE/INSP/4377 dated September 01, 2003, Trading Members are required to adopt proper customer due diligence processes. Angel One violated these regulatory provisions by incorrectly mapping 22 Bank Accounts to 70 Clients.

- e. Considering that Angel One deactivated the accounts, the Committee decided to warn Angel One to ensure non-recurrence of the observed violation.

LO-2:

8.3 Failure to obtain documentary evidence in support of financial information provided by client in derivative segment

8.3.1 The Exchange verified the Client Registration Documents, Client Ledgers and KYC documents. Upon verification, the Exchange observed as under:

- a. Angel One had incorporated contradictory clause in the running account form stating retention of Rs.10,000 for equity segment and Rs. 50,000 in commodity segment in the KYC form pertaining to running account settlement in case of 40 out of 40 clients selected for sample scrutiny (100% of the total sample clients).
- b. Angel One did not have any system in place for verifying the authenticity of email id of the client in KYC.
- c. Angel One had the following system issues in its E-KYC Process:
 - i. System does not verify documents uploaded and accepts any kind of document uploaded (blank page, screen shot, any files etc.) by clients as a supporting document for allowing the clients to trade in derivative segment.
 - ii. Specify country of residence for tax purpose is marked as "India", but final output is mentioned as "Yes".
 - iii. Place of declaration for the client is entered as "MUMBAI" by default whereas actual place is different.
 - iv. Default checkbox of running account settlement is ticked as "NO", however the final output is mentioned as "YES", and Quarterly settlement option gets selected.

8.3.2 In reply to LO-2, Angel One submitted as under:

- a. Contradictory information available in KYC form pertaining to running account settlement in case of 40 out of 40 sample clients verified.

Angel One adhered to the guidelines prescribed by SEBI viz. Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2021/57 dated June 16, 2021, in true spirit. In view of this requirement, they had not retained Rs. 10,000 for Equity and Rs. 50,000 for commodity exchange at the time of quarterly settlement.

The content of retention as pointed during inspection was in old version of KYC, wherein as per the applicable clause in KYC (as highlighted in Annexure) the updated contents were displayed on its website. The website also consisted of declaration stating unused client funds shall be transferred to registered bank account of the client at the time of running account settlement. Further, the provisions of SEBI circular no. SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022, regarding single day settlement have also been uploaded on website.

- b. No process or system in place for verifying the authenticity of email id of the client in KYC

Implemented inbuilt software to check validity of the domain name for each of the email ids entered into system from January 2022. Additionally, also developed a process for verifying the Email id of the client via One Time Password (OTP) system from November 2022.

- c. System issues observed in E-KYC Process

- i. System does not verify and accepts any kind of document upload (blank page, screen shot, any files etc.) by clients as a supporting document for allowing the clients to trade in derivative segment:

To activate derivatives segment at the time of account opening or later through segment modification, the customers uploaded the required documents which have been prescribed by SEBI / NSE. Once the customers upload the document through its account opening links, the relevant documents land on KYC executive's desk. All such documents are checked through eyeball method (manual checks carried out by executives). Only if the documents are as per the regulation, the documents are approved. Prior to August 2022, such checks were done through Optical

Character Recognition (OCR), but to have better controls Angel One shifted to manual checking. These KYC checks are run based on type of documents uploaded by customers, mentioned herein:

- 1) Bank Account Statement
- 2) Passbook (previous 6 months)
- 3) Latest Salary Slip
- 4) ITR Acknowledgement of previous financial year
- 5) Form 16 of previous financial year
- 6) Latest Demat holding statement

- ii. Specify country of residence for tax purpose is marked as “India”, but final output is mentioned as “Yes”.

The specific country of residence for tax purposes is correctly ticked as “India” and hence required regulatory information is captured and available at all point of time.

- iii. Specific place of declaration for the client is entered as “MUMBAI” by default whereas actual place is different.

The place of declaration is correctly captured in the KYC form along with e-sign of the client. However, the field in place of location gets captured as per the location of the registered office of Angel One, which is at Mumbai. However, as suggested, Angel One will ensure to update the location in the requisite field.

- iv. Default checkbox of running account settlement is ticked as “NO”, however the final output is mentioned as “YES”, and Quarterly settlement option gets selected.

There was no such default marking of the checkbox. The checkbox is based on the option selected by the client. Clients do have an option of selecting monthly / quarterly settlement as per their preferences.

8.3.3 The Committee finds as under:

- a. Contradictory information available in KYC form pertaining to running account settlement in case of 40 out of 40 sample clients verified.

Angel One accepted the inspection observations and attributed the same to a retention clause present in an older version of the KYC form, stating that an updated clause is now displayed on Angel One's website. However, Angel One failed to modify the clause in line with the Exchange circular No. NSE/INSP/48624 dated June 16, 2021, which specifies that, the *"Retention of any amount towards administrative / operational difficulties in settling the accounts of regular trading clients (active clients), shall be discontinued."* Thus, the violation persists.

- b. No process or system in place for verifying the authenticity of email id of the client in KYC

Angel One accepted the inspection observation and submitted that Angel One has now implemented the process of verifying the authenticity of the email ids for all their clients and they have an inbuilt software to check validity of the domain name for each of the e-mail IDs entered into the system from January 2022. Further, Angel One have a process of verifying the e-mail ids of the client via OTP system from November 2022. However, post-inspection compliances does not absolve Angel One of violations already committed. Thus, the violation persists.

- c. System issues observed in the E-KYC process

- i. System accepts any kind of document uploaded (blank page, screen shot, any files etc.) by clients as a supporting for allowing the clients to trade in derivative segment

Angel One accepted the inspection observations and submitted that prior to August 2022, documents verification was carried out through Optical Character Recognition (OCR). For enhanced control, this process was shifted to an "Eyeball Mechanism" (Manual checking by executives). However, post-inspection compliance does not absolve Angel One of the violations already committed, and thus, the violation persists.

- ii. Country of residence for tax purpose is marked as "India", but final output is mentioned as "Yes"

Angel One's contention that "India" is captured in that field and available at all point of time for regulatory purposes is not acceptable, as it is observed during the inspection that the form reflects "Yes" instead of "India" in the relevant field. Thus, the violation persists.

- iii. Place of declaration for the client is entered as "MUMBAI" by default whereas actual place is different

Angel One's contention that the place of declaration is captured as per the location of registered office of Angel One Limited i.e. Mumbai, along with the client's e-sign. However, sample verification of client codes H142173, PSRD1021 and A406528, reveals that Angel One recorded 'Mumbai' as the place of declaration, while the actual location of the clients is different. Although Angel One has assured future compliance, post inspection compliance does not absolve Angel One of the violations already committed. Thus, the violation persists.

- iv. Default checkbox of running account settlement is ticked as "NO", however the final output is mentioned as "YES", and Quarterly settlement option gets selected

Angel One denied that the checkbox was marked by default, claiming that clients can select either monthly or quarterly settlement as per their preference. However, sample verification of KYC documents for client codes H142173, PSRD1021 and A406528 showed that while running account settlement was initially marked as "NO," the later generated snapshot of KYC form indicated it as "YES". Therefore, Angel One's contention is not acceptable, and the violation persists.

- d. Thus, Angel One violated Exchange circular No. NSE/INSP/14048 dated February 3, 2010, and NSE/INSP/13606 dated December 3, 2009.

8.3.4 Given the findings mentioned above, the Committee levies the following penalties.

- a. For the violation pertaining to contradictory clause available in running account settlement i.e. discrepancies in running account authorization form - Rs. 10,000/-, in terms of Sr. No.30 of Part B

(Procedural Violation) of Annexure I of Exchange Circular No. NSE/INSP/47457 dated February 25, 2021.

- b. For the violation pertaining to place of declaration, country of residence, no process or system in place for verifying the authenticity of email id of the client in KYC and system issues observed in E-KYC process - The Committee decided to warn Angel One to ensure non-recurrence of these observed violations.
- c. The Committee further directed Angel One to conduct re-KYC for the observed non-compliances and to submit an audit certificate within 6 months certifying that all KYCs are complying with the regulatory requirements.

8.4 Failure to inspect APs as per prescribed parameters

8.4.1 The Exchange inspected the office of Angel One's AP i.e., Mr. Rajan Kumar Madheshiysa and verified the AP inspection reports submitted by Angel One to the Exchange. Upon verification, the Exchange observed as under:

- a. Upon verification of the AP inspection report submitted by Angel One, it is observed that Angel One had failed to examine the following parameters defined under scope of AP inspection.
 - The AP / Branch is not involved in any fund-based activities / collecting deposits from investors / dabba trading / chit funds or any other such schemes.
 - Advertisements soliciting business are not issued by the AP / Branch in newspapers / pamphlets / journals / magazines etc. without appropriate approvals.
 - Various activities undertaken by the AP/Branch like Number of clients mapped to the AP/Branch and the process of client registration and on boarding.
- b. Upon inspection, the Exchange observed as under;
 - The notice board with address of AP is not displayed outside the office
 - The change in address of AP was not intimated to Exchange within prescribed time.

- The clients of AP were not informed about the change in address of AP's Office.
- AP is running office in the trade name of Capital Money Maker Financial Service which is not intimated to the Exchange
- Non-display of notice board providing details of Trading Member
- Non-Maintenance of complaints register by AP
- Non-display of SEBI Registration Certificate of the Trading Member / AP

8.4.2 In reply to LO-2, Angel One submitted as follows:

- a. The AP / Branch is not involved in any fund-based activities / collecting deposits from investors / dabba trading / chit funds or any other such schemes and Advertisements soliciting business are not issued by the AP / Branch in newspapers / pamphlets / journals / magazines etc. without appropriate approvals:

Angel One had already verified the said points in the AP Inspection conducted, and have also taken an undertaking from the AP, cautioning him for the said activities. Also, the said parameter was formally included in AP inspection checklist from July 2022.

- b. Non-Reporting of activities undertaken by the AP/Branch like Number of clients mapped to the AP/Branch and the process of client registration and on boarding:

Angel One has a common centralized process for client registration and onboarding, and they were aware about the number of registered and traded clients at the time of audit. They were already verifying the said points in their AP Inspection. However, this was formally included in AP inspection checklist from July 2022.

- c. The notice board with address of AP is not displayed outside the office:

Angel One had provided a photocopy of the Inspection location displaying the notice board of its AP.

- d. The change in address of AP was not intimated to Exchange on a timely basis:

Angel One stated that the AP is in the process of updating the correct location to the Exchange. The AP has now shifted his office to Shop No. A/02, 1st Floor, Sakinaka Indl Market Link Road Opp. Maharashtra Weight Bridge, Kurla West, Behind Sakinaka Metro Gate No.05, Mumbai-40007. Furthermore, Angel One had also warned the AP for not updating the correct location to their compliance team vide letter dated August 01, 2022.

- e. The clients of AP were not communicated about the change in address of AP's Office:

Angel One stated that the AP has intimated the clients regarding the change in address vide his Email dated March 04, 2023.

- f. AP is running office in the trade name of Capital Money Maker Financial Service which is also not intimated to Exchange:

Angel One stated that AP has initiated the process of intimating to the Exchange about the changes in its name. In this regard, Angel One has also issued a warning to the AP for not updating the correct name to them.

- g. Non-display of notice board providing details of Trading Member:

Angel One claimed that the AP has displayed the notice board at the inspection location, and they have also attached a copy of photo of the said board.

- h. Non-Maintenance of complaint register by AP:

Angel One stated that the AP maintained the complaint register and they have provided a copy of the same.

- i. Non-display of SEBI Registration Certificate of the Trading Member / AP:

Angel One stated that the AP has displayed the SEBI registration certificate at the inspection location, and they have provided a copy of the same.

8.4.3 The Committee finds as under:

a. Angel One failed to examine the parameters defined under scope of AP inspection:

i. Angel One contended that they were already verifying these areas in their AP inspection; however, this claim was found to be incorrect, as the observed parameters were neither verified nor recorded in the inspection report. Angel One admitted to formally including these areas in its AP inspection checklist from July 2022. However, post-inspection compliance does not absolve Angel One of the violations already committed.

ii. As per the Exchange circular No. NSE/INSP/42448 dated October 18, 2019, it is stated that:

Members while undertaking the inspection of Branches and AP offices shall examine that all applicable regulatory requirements have been complied with including following indicative parameters:

11. The Authorised Person/Branch is not involved in any fund-based activities / collecting deposits from investors / dabba trading / chit funds or any other such schemes.

15. Advertisements soliciting business are not issued by the Authorised Person/Branch in newspapers / pamphlets / journals / magazines etc. without appropriate approvals.

22. The Report of Inspection shall, in addition to the above clearly comment on the following: -

c) Number of clients mapped to the AP/Branch.

d) Process of Client registration and on boarding.

iii. Accordingly, Angel One was required to cover and comment on each of these parameters in its AP inspection report. Thus, by non-examining these parameters as mentioned above shows that Angel One has failed to conduct the AP inspection in line with Exchange circular No. NSE/INSP/42448 dated October 18, 2019. Thus, the violation persists.

b. Exchange observation during AP's inspection

i. Notice Board with AP Address Not Displayed Outside the Office:

Angel One provided a photo showing the notice board of the AP. However, at the time of inspection said details were not displayed. Further, Angel One also issued a warning letter to the AP for the same violation indicates that photographs are post-inspection compliance which will not absolve Angel One of violations already committed. Thus, the violation persists.

ii. Failure to timely notify the Exchange of the AP's Address Change:

Angel One contended that AP is in the process of updating the change in address to the Exchange. Angel One has also warned the AP for not updating the change in address to the compliance team of Angel One. However, post-inspection compliance does not absolve Angel One of the violations already committed. Thus, the violation persists.

iii. Failure to Communicate the AP's Address Change to Clients:

Angel One stated that AP has intimated the change in address vide its Email dated March 04, 2023. However, post-inspection compliance does not absolve Angel One of the violations already committed. Thus, the violation persists.

iv. AP is running office under the trade name of Capital Money Maker Financial Service without notifying the Exchange:

Angel One contended that the AP has initiated the process of intimating to the Exchange about the change in its name. Furthermore, Angel One has also warned AP, for not updating the correct name to Angel One. However, post-inspection compliance does not absolve Angel One of the violation already committed. Thus, the violation persists.

v. Non-display of notice board providing details of Trading Member, Non-Maintenance of complaint register and Non-display of SEBI registration certificate:

Angel One contended that AP has displayed the notice board, maintained the complaint register and SEBI registration certificates at the Inspection location. However, at the time of inspection by the Exchange, notice board, complaint registers and SEBI registration certificates were not available. Post-

inspection compliance does not absolve Angel One of violation already committed. Thus, the violation persists.

- c. Given the findings mentioned above, Angel One has failed to inspect its AP as per prescribed parameters by the exchange in terms of Exchange Circular No. NSE/INSP/42448 dated October 18, 2019.

8.4.4 Considering Angel One has already been penalized for the said violation vide Committee order dated July 14, 2023, and Angel One has taken corrective measures, the committee decided to warn Angel One to ensure non recurrence of the observed violations.

LO-1 and LO-2:

8.5 Non-adherence to prescribed guidelines pertaining to referral schemes

8.5.1 The Exchange verified the referral schemes offered, and advertisement issued by Angel One, upon verification, the Exchange observed the following:

- a. Angel One has not adhered to the guidelines prescribed for referral schemes while sharing commission:
 - i. Angel One is not offering flat commission for clients onboarding (Rs.100 on account opening and Rs. 500 gift vouchers on referee's first trade date)
 - ii. Angel One is paying referral commission to the client onboarded (scratch cards up to Rs. 5000 to referrer and up to Rs.2000 to the referee)
 - iii. Angel One is inducing the client to trade in F&O segment by offering scratch card on placing first trade in F&O segment.
- b. Angel One has released advertisements which were in violation of the code of advertisement prescribed by the Exchange.
- c. Angel One has not provided any board-approved policy for referral schemes.

8.5.2 In reply to LO-1 and LO-2, Angel One submitted as under:

- a. Angel One has strengthened the overall process and educated the marketing team on the regulatory requirements. Accordingly,

now all the marketing materials /offers etc. are submitted to Exchange for approval. Furthermore, as a precautionary measure, Angel One has pulled out all the existing offers in the month of July 2022 for which observations were raised. Angel One has a process of obtaining approvals from Exchanges before publishing offers/advertisements. An approved content can be published and is valid till 180 days from the approval date. Accordingly, certain approved contents were published within the validity as provided. Angel One submitted point wise reply as under:

- i. Not offering flat commission (Rs.100 on account opening and Rs. 500 gift vouchers on referee's first trade date) - The advertisement was issued for existing clients and was withdrawn on May 05, 2022.
 - ii. Referral commission to the client onboarded (scratch cards up to Rs. 5000 to referrer and up to Rs.2000 to the referee) – This advertisement was issued to existing clients only, so no approval was sought from the Exchange. However, the process has now been strengthened and all content is currently published only after obtaining the necessary approvals. Further the said advertisement was withdrawn on November 18, 2022.
 - iii. Inducing the client to trade in F&O segment (Get a scratch card on placing first trade in F&O) - The requisite approval from the Exchange was obtained vide reference number-397/ADV/1021/6726 dated October 13, 2021. Further, the scratch card campaign was stopped from July 28, 2022.
- b. Advertisement released in violation of the code of advertisement – The said advertisements were withdrawn in May 2022.
 - c. Not provided any board-approved policy for referral schemes - Angel One has a process of placing policies before the board as per the regulatory guidelines. Further, strengthened the overall process and educated the marketing team on the regulatory requirements. Accordingly, now all the marketing materials /offers etc. are submitted before Exchange for approval.
 - d. Furthermore, as precautionary measure Angel One has pulled out all the existing offers in July 2022.

8.5.3 The Committee finds as under:

- a. With regard to not offering flat commission i.e., Rs. 100 on account opening and Rs. 500 gift vouchers on referee's first trade date and referral commission in form of scratch cards up to Rs. 5,000 to Referrer and up to Rs. 2,000 to the Referee – Angel One's contention that the said advertisement was issued to the internal clients is found to be correct. However, by offering additional gift voucher of Rs. 500/- over and above Rs. 100 on account opening and scratch card of Rs. 5000 to Referrer and up to Rs. 2000 to the Client, Angel One failed to offer flat commission and also caused the Referring person to induce the clients to trade. Thus, Angel One violated Exchange circular No. NSE/INSP/43824 dated March 11, 2020, which inter-alia states as below:

1. For a particular referring person, the rate of the incentive should be flat (i.e. not slab based), and a single rate should be applied.....
3. The referred client shall not be subjected to any kind of trade inducement by the referring person and it shall be ensured that all instructions for placement of orders are obtained from the respective clients only.

Thus, the violation persists.

- b. With regard to offering scratch card on placing first trade in F&O segment – Angel One's contention of having approval in place is noted.
- c. With regard to release of an advertisement in violation of the code of advertisement prescribed by the Exchange - Angel One contended that said advertisement is approved by Exchange. However, upon verification of content of advertisement and the Exchange approval dated March 10, 2022, it was observed that the advertisement content differed from what was approved by the Exchange in its letter dated March 10, 2022. Therefore, Angel One's contention is not acceptable. Angel One's further submission that Angel One withdrew the said advertisement in May 2022 is also not acceptable, as post inspection compliance

does not absolve Angel One of the violations already committed. Thus, the violation persists.

8.5.4 Given the findings mentioned above, the Committee decided to levy the following penalty:

- a. For non-adherence to the referral guidelines – Rs. 50,000/-
- b. For publishing the advertisement without prior approval – Rs. 50,000/- in terms of Sr. No.76 of Part B (Procedural Violation) of Annexure I of the Exchange Circular No. NSE/INSP/47457 dated February 25, 2021, and directed to comply with the referral guidelines issued by the Exchange from time to time.

DECISION

9. In view of the above, the Committee levies the following penalties as indicated against each of the violations mentioned below:

Sr. No.	Committee's Findings	Prescribed Penalty as per Exchange Circular No. NSE/INSP/47457 dated February 25, 2021	Penalty
<u>LO-1</u>			
1.	Failure to obtain documentary evidence in support of financial information provided by client in derivative Segment	Material Discrepancies in Client registration documents: Rs. 10,000/- per client	Rs. 80,000/-
2.	Proper customer due diligence process not adopted.	No prescribed action	Warning
<u>LO-2</u>			
3.	Failure to obtain documentary evidence in support of financial information provided by	1. Discrepancies in running account authorization from clients: Up to 5	i. For contradictory clause in running account settlement: Rs. 10,000/-

	client in derivative Segment.	instances: Advise; More than 5 instances Rs.10,000/- 2. Incorrect / Incomplete execution of client registration documents: Warning / Advise	ii. For the violations pertaining to place of declaration, country of residence, no process or system in place for verifying the authenticity of email id of the client in KYC and system issues observed in E-KYC process other observations on email id authentication and e-KYC: Warning iii. Directions: Perform re-KYC for observed non- compliances on existing clients and submit audit certificate within 6 months certifying that all KYCs are complying the regulatory requirements
4.	Failure to inspect APs as per prescribed parameters	1. Incomplete / Non display of details by member viz, Notice Board/ name, its logo, registration no, address with telephone no, compliance officer name, telephone no, email id, SEBI Registration certificate/ AP Registration certificate and other prescribed details:	Warning (Reason enumerated above)

		Rs. 10,000 per location.	
		2. Register of complaints: Rs. 50,000 per book + No new Clients till the said records are maintained.	
LO-1+ LO-2			
5.	Non-adherence to prescribed guidelines pertaining to referral schemes	1. Non-adherence to the referral guidelines: No prescribed action. 2. Non-adherence to the code of advertisement: Rs.50,000/-	i. For non-adherence to referral guidelines: Rs. 50,000/- ii. For publishing advertisement without prior approval: Rs. 50,000/- iii. directed to comply with the referral guidelines issued by the Exchange from time to time
TOTAL			Rs. 1,90,000/- + Directions

10. Angel One shall pay a monetary penalty of Rs. 1,90,000/- (One Lakh Ninety Thousand only).
11. Angel One shall take note of the non-monetary penalty and ensure non-recurrence of the observed violations.

Sd/-
 S Ravindran
 (Chairperson)

Sd/-
 Essaji Vahanvati
 (Committee Member)

Sd/-
 Ashishkumar Chauhan
 (Committee Member)

Date: February 14, 2025